

## Managing Risk

As global financial institutions grapple with evolving challenges, the importance of Chief Risk Officers has never been more apparent. For insight into this essential role, *PQR* asked Carol Sergeant, Chief Risk Director of Lloyds TSB in London, about her strategic approach.

“I’m on the Group Executive Committee, where I am expected to wear two hats—corporate and risk. My general responsibility is to contribute to the strategy and the development of the company, while ensuring that the risks we take support that strategy. I’m also responsible for ensuring that we have the appropriate risk policy, risk appetite, infrastructure, people, and everything else that goes along with delivering on what we’ve chosen.

CROs need to understand risk technicalities, but at this level you cannot be an expert down to the nth degree in risk analytics. Risk officers throughout the organization report to me, even in areas like Human Resources, where there are potential problems if you don’t have the right people, training, and compensation in place.

I have a broad business background and have operated at the board level before. I report directly to the CEO and also have access to the Chairman whenever I need it. I wouldn’t have taken this job four years ago without a seat at the top table because I believe that this

is essential in order for risk to be a significant part of the senior decision-making process.

By and large, I look at risk as failing to meet stakeholder expectations. Your shareholders have expectations, your customers have expectations, your staff has expectations, the regulators have expectations, and so forth. Companies need to deliver on those expectations. You can change those expectations but you need to do that prior to delivery. They do not appreciate surprises. The CRO job is about understanding stakeholder expectations and ensuring that the right people and processes are in place to deliver consistently against those expectations, through the economic cycle. In short: no surprises.”



Carol Sergeant

## Best Practices on Risk



Phillip Straley

As market events have emphasized, Chief Risk Officers shoulder critical responsibilities as they direct risk assessment practices companywide, set the corporate tone for attention to risk, and keep boards and C-Suite teams apprised of the company’s current capital position and potential future developments.

Effective risk management systems are also essential, asserts Phillip Straley, Partner and Far East Area Leader for Financial Services Risk Management with Ernst & Young Advisory Services in Hong Kong. “In addition to corporate risk assessment, it is extremely important to have risk managers embedded into the businesses who understand that business,” he advises. “These individuals must have input and be heard when business managers make decisions.”

Such comprehensive systems can pay off. As Mr. Straley concludes, “Regular communication about risk across, up, and down the organization is vital. This is a distinguishing factor for the firms that currently are performing best.”

### In the C-Suite

What’s the next hot, up-and-coming C-Level position?

A recent survey by CTPartners found that CROs top the list.

Chief Risk Officer	34.64%	(62 respondents)
Chief Innovation Officer	29.61%	(53 respondents)
Chief Sustainability Officer	24.58%	(44 respondents)
Chief Diversity Officer	11.17%	(20 respondents)

Source: CTPartners, 2008

## Q: What Makes a Great CRO?

**Burke St. John**, Vice Chairman, CTPartners:

“From an organizational perspective, it’s clear that this is an executive role that must report directly to the CEO. Contrary to what many companies believed in the past, it’s also clear that there’s a strong proactive element to the job, requiring tremendous business acumen.

We’re seeing that a company’s success in risk management strongly impacts its share price. That trend will continue. At CTPartners, we believe that the CEO and the CRO must be strongly aligned in their priorities as well as their expertise levels in order to achieve real success in risk management.”

**Hugh Pye**, Partner, CTPartners:

“What’s required is a truly broad and deep understanding of risk in its widest sense. This means not just understanding credit, market, and operational risk but, also, risk at the strategic level. Strong CROs are also skilled at leading and delegating.

This mix of personal and business skills is not easy to find. People who are analytical by nature are not always great leaders and communicators. That’s one reason why great CROs are rare individuals.”